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Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554

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AUG 3 1994

In the Matter of )  
Billed Party Preference )  
for 0+ InterLATA Calls )

CC Docket No. 92-77

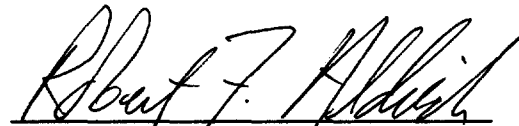
FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY

ERRATA

The American Public Communications Council ("APCC") hereby submits corrections to two typographical errors in the study attached to its Further Comments in CC Docket No. 92-77, filed yesterday, August 1, 1994. These Further Comments were filed in response to the Commission's Further Notice of Proposed Rulemaking, FCC 94-117, released June 6, 1994.

In "The Many Costs and Few Benefits of Billed Party Preference," by Dr. Charles L. Jackson and Dr. Jeffrey A. Rohlfs, attached as Exhibit 1 to APCC's Further Comments, there are typographical errors on pages 2 and 46. The attached pages correct those errors.

Respectfully submitted,



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Dated: August 2, 1994

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## **The Many Costs and Few Benefits of Billed Party Preference**

**By**  
**Dr. Charles L. Jackson**  
**Dr. Jeffrey H. Rohlf**

**August 1, 1994**

### **I. Executive Summary**

While Billed Party Preference (BPP) is frequently touted as enhancing consumer choice, in fact, it will offer no new choices to consumers. In fact, BPP is not about consumer sovereignty, BPP is simply an automated system that would allow a person using a calling card or credit card to select his or her long distance carrier in advance rather than by using an 800-number or 10XXX0 access dialing.

The Federal Communications Commission's (FCC's) Further Notice of Proposed Rulemaking (FNPRM) sets forth two substantial public benefits that would flow from BPP — customer avoidance of the high fees charged by a few firms (so-called third tier OSPs) and the elimination of commissions paid by OSPs to hotels, pay phone operators and other aggregators. The FCC also considered the cost of implementing BPP and concluded that the benefits outweighed the costs.

The FCC's analysis of costs was flawed; the Commission failed to identify many of the costs created by BPP. Additionally, we believe that they underestimated the costs they identified. The FCC's analysis of benefits was similarly flawed. By counting both reductions in commissions and reduction in long-distance charges as benefits, the FCC counted some benefits twice. The FCC also treated transfer payments as costs. For example, the FCC analysis would treat a reduction in payments by the contractor operating the inmate calling system in Montgomery County, Maryland as a consumer benefit. But, the reductions in these payments mean either an increase in taxes or a decrease in county services.

The FCC estimated that \$340 million would be “saved” by the elimination of commissions paid to premises owners and pay phone providers.<sup>47</sup> We do not agree with this since we believe that these “costs” will be replaced by other marketing and additional costs and one partially included in the \$280 million rate reduction. Indeed, to the extent that rental payments to government agencies are replaced by direct mail advertising or television advertising, real resource consumption replaces income transfers. Real costs replace accounting transfers. The proper analysis of such commissions is to examine their effect on the price of the affected service to end users and to estimate consumer welfare losses due to elasticity effects. The FCC failed to do so.

The annual \$340 million of commissions corresponds, in part, to the amount the IXC's will spend annually in their marketing attempts and other costs they incur to capture traffic routed by BPP. Thus, if one felt that these commissions represented actual resource consumption or in some other sense were truly economic costs, then the cost analysis should be modified to avoid double-counting. One way to do so would be to subtract the \$340 million from the marketing and related costs under BPP. Doing so would reduce the estimated costs of BPP operation by the full \$340 million. We do not think this adjustment is necessary, but some readers may.

We have discussed above the FCC's statement that BPP would generate more efficient pricing. We see no reason to believe that BPP will generate more efficient pricing if BPP costs are loaded onto other services or onto dial-around or from-home calls that do not benefit from BPP. We believe that in some instances, e.g., prison phones, will have just the opposite effect. By setting to zero a current implicit price for phone availability in airports and hotels, it will underprice these resources.

The third advantage the FCC lists for BPP is that it would give AT&T's competitors the same 0+ access as AT&T. We have also discussed this claim earlier.

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<sup>47</sup> FNPRM, paragraph 12.